

[These Minutes were agreed by the Board at its meeting on 9 June 2005]

FOR PUBLICATION

Minute Nos. 05/30 to 05/60

BRITISH WATERWAYS BOARD

Minutes of the Board Meeting held at the
Branston Hall Hotel Lincoln
On Thursday 17 March 2005 at 9.00am

PRESENT:

Dr G P Greener Chairman
Ms S Achmatowicz
Mr R Bowker
Dr C Christie
Mr I M Darling
Professor G Fleming
Mrs H Gordon
Dr D R Langslow
Mr T Tricker

IN ATTENDANCE:

Mr R Evans Chief Executive
Mr J Froomberg Commercial Director
Mr N Johnson Legal Director
Mr D Cochrane Managing Director, Northern Waterways
Mr J Lancaster Managing Director, Southern Waterways
Mr V Moran Personnel Director
Mr S Salem Marketing & Customer Service Director
Mr S A Sim Technical Director
Mr M Smith Finance Director

Mr C J Howells Assistant Secretary

MINUTES

The Minutes of the Board Meeting on 27 January 2005 were confirmed and signed.

BOARD VISIT

The Board thanked Mr Cochrane for arranging the informative BW Visit the previous day and for the interesting and useful meeting with local BW staff.

MATTERS ARISING

Board Members' Remuneration (Minute 05/09)

- 05/30 Professor Fleming noted that it was two years since the inadequate level of Board Members' remuneration in relation to their services had been raised with DEFRA. The Board endorsed his view that this delay in responding was unacceptable. It requested the Chairman should make immediate representations to the Waterway Minister on the matter.

Contractor Fatality – Kennet & Avon Canal (Minute 05/12)

- 05/31 The Legal Director reported that he had considered whether there was any scope for BW to register its concern that the inquest into the accident would not be held until 2006 and had concluded there was none. The Board agreed that no further action should be taken.

End to End Review (Minute 05/13)

- 05/32 The Board agreed that the supper meeting with the Waterways Minister to review the End to End outcomes had been a success. DEFRA were now awaiting confirmation from the Scottish Executive that they could publish the review and the consultations. Once published, DEFRA would formally respond to this, as would BW. It was agreed that the Chairman and Chief Executive would use the paper prepared for the supper meeting as the basis for BW's response.

The Chief Executive advised that he was meeting Mr Bird of DEFRA the following day and would seek to progress the issues of most importance to BW. These were the Governance letter (which encapsulated BW's statutory powers) and was currently with the Shareholder Executive for review; to secure a clause in the draft Natural Environment & Rural Communities Bill to allow investment near to other waterways; and to proceed to heads of terms with the contract with Government.

The Board noted that the Governance letter would not cover Scotland and that Scottish Executive and Ministers felt the existing relationships worked well so that a short letter only was needed. It was agreed the Chief Executive would review with Dr Christie, Mr Darling and Professor Fleming whether there were any drawbacks for BW with these arrangements.

Pension Scheme Deficit (Minute 05/16)

- 05/33 The Personnel Director advised that the Pension Fund Trustee Board had agreed the amended proposal for dealing with the pension fund deficit at its special meeting on 2nd February. The required amendments to the Trust Deed and Rules were now being completed with the changes implemented from 1st April 2005 as agreed.

Waterscape (Minute 05/17)

- 05/34 The Chairman noted that less time had been available for the review of Waterscape at the last meeting than Board Members would have wished and he welcomed the subsequent discussions of Mr Bowker

and Ms Achmatowicz, who had particular concerns, with the Marketing & Customer Service Director.

Mr Bowker and Ms Achmatowicz confirmed that their discussions had led them to conclude that the strategy agreed at the last meeting was appropriate; the plan was a sensible one that recognised the significant risks; the half-year review would involve a close scrutiny of progress. They had been impressed by the calibre of the Interim MD. Chris Shaw.

Commercial Projects for Approval (Minute 05/22)

- 05/35 It was confirmed that the Property Sub-Group had agreed the purchase of the freehold of the Tudor Industrial Estate, Tyseley and not a 999-year lease as proposed at the last meeting. [Text omitted as commercially confidential].

Sharpness Docks (Minute 05/27)

- 05/36 The Technical Director advised in response to Professor Fleming's enquiry at the last meeting that notwithstanding an issue with Harbour dues at Sharpness, BW was fully compliant with Docks & Harbours legislation at all its sites. He would continue to monitor compliance closely.

CHIEF EXECUTIVE'S REPORT & FINANCIAL REVIEW

- 05/37 The Board noted BWB 3182.

Financial Performance

- 05/38 The Finance Director updated the Board with the financial performance for the 11 months to February. This was in line with forecast with the exception of contract spend but here, too, the Executive was confident the target would be met by the year end. A consequence of the Chancellor's Budget would be a higher carry-over of cash at the year end but this was not a problem.

Changes to Delegated Authorities

- 05/39 The Chief Executive referred to the 2004 End to End Review of BW, which in line with developments across government had recognised the need to modernise the involvement of DEFRA, Scottish Executive and Treasury in business decisions. Implementation of the Review recommendations would include an increase in the monetary thresholds above which projects have to have a specific departmental review or approval. The Executive had reviewed all delegated authority arrangements as part of the change process and recommended the following new thresholds: -

| | |
|-------------------------------|----------------|
| Treasury | £10m+ |
| DEFRA | £5m+ |
| BW Board | £3m+ |
| BW Chief Executive | £0.5m - £3m |
| Executive/Operations Director | £0.25m - £0.5m |
| General Managers | Up to £0.25m |

The Chief Executive further advised that the proposed changes would only cover project expenditure that was in line with agreed business

plans. Any new direction, activity or market entry would require pre-approval as would small but significant expenditure which would lead to or indicate commitment to much larger spends.

The Board approved the introduction of the proposed internal delegation thresholds on the basis set out in the memorandum and delegated the Finance Director to negotiate with Governments accordingly.

The Board then considered the recommendation that all items between £1m and £3m be advised to it for noting. Members felt it was important that they were able to appreciate the full range of projects and their context in terms of total spend and that to do this they should be able to note, and where necessary comment, on all projects between £0.5m and £3m. It was agreed that a brief description of each project between these thresholds would be included as an appendix to the Chief Executive's briefing.

Finally, the Board agreed to keep the new arrangements under review and, if necessary, revisit them.

Chairman's Appointment

05/40 The Board noted that the Waterway's Minister was meeting the candidates short-listed for Chairman and would then need to agree the appointment with the Scottish Executive and the Prime Minister. The plan was to make an announcement before 23 March.

Dr Christie reported that his involvement in the selection panel had been useful in putting across BW's perspective. The Board noted that there were lessons arising from the appointment process and agreed it was important that these should not be lost for the future. They would be documented and brought to the attention of DEFRA.

Risk

05/41 The Board noted that failure to secure income outstanding from several Local Authorities on the Rochdale Canal could result in the need to make a doubtful debt provision. Mr Cochrane reported on the issues which also involved the Waterways Trust as owner of the canal and the Rochdale Canal Trust. He would be having meetings at which he hoped to resolve the immediate issues and to ensure relationships were on a sounder footing so that there was no recurrence.

Customer Satisfaction

05/42 The Chief Executive reported on the outcome of the research programme to measure BW's progress against its vision that had been carried out by independent research organisations.

He noted that whilst scores rating BW service as "excellent" had declined, the level of "poor" ratings had improved. Overall, BW remained at high levels of satisfaction but in competitive terms this represented a relative decline with other leisure providers improving their scores.

Mr Evans noted that improving customer service had already been agreed by the Executive as a key action for 2005/06. This included responding to key customer complaints (e.g. vegetation control) and

the implementation of the Internal Complaints Procedure. It was also reflected in Mr Salem's new title of Marketing & Customer Service Director. Further initiatives to drive through excellence in service were now being implemented based on the research findings. Particularly relevant was that recent appointments meant that BW now had a complete team of Service Managers of the required calibre.

Mr Tricker, as Chairman of the Remuneration Committee, welcomed the report which went to the heart of what BW was about. It gave welcome historical perspective and context. It was challenging but was also a tool to get things right. He asked for Board Members' views on messages in the report for the Remuneration Committee and suggested that future reports should come to the Board for review and comment.

Referring to the regular reports on customer satisfaction in the Chief Executive's Briefing, Mr Salem advised that he would, in future, be reporting to the Board on a quarterly basis. There had, therefore, been no report in the March paper. The Executive continued to review performance of the Internal Complaints Procedure monthly.

Meeting with the Conservative Party

- 05/43 The Chief Executive and Finance Director reported on the unsatisfactory meeting they had had with the Shadow Chief Secretary to the Treasury to talk about the Conservative party's proposal to sell off BW's property estate. Despite the undoubted strength of BW's arguments on self-sufficiency and that the proposal would increase the burden on Treasury, they remained unmoved. The Board endorsed the Chief Executive's view that as long as this remained Conservative Party policy, BW would have no choice but to oppose it.

DEFRA Grant

- 05/44 The Board noted the letter of 2nd March 2005 from the Waterways Minister to the Chairman confirming the outcome of the Spending Review 2004 and BW's grant for 2005/06 to 2007/08.

Covelink

- 05/45 The Finance Director updated the Board on the amphibious bus supplier, Covelink Marine, which was now in administration and his efforts to realise some value for BW from a disposal of the intellectual property rights.

Mr Smith confirmed that with no expressions of interest in the company forthcoming he had decided the cost of renewing the patents that BW held in Covelink was not justified and they should lapse. Mr Royle, the majority owner of Covelink, had now written to all Board Members and others involved in BW, criticising BW's handling of the amphibious buses including the patents issue. The correspondence was tabled.

Following a full review the Board strongly endorsed the approach taken by the Finance Director to date which was considered to be entirely fair and reasonable and delegated to him responsibility for continuing to manage the issue to a conclusion.

Ventures

05/46 The Board received an update on ventures based on the recent quarterly review.

On ISIS, Mrs Gordon noted the change of emphasis from land trading to direct development. She highlighted forecasts of a downturn in the housing market and that it was important that ISIS did not commit equity based on historic valuations. It was agreed that the BW Board members on ISIS General Partner Limited would keep this under review.

Mrs Gordon then referred to H₂O Urban, which was developing four small canalside sites in London and noted that the partner had been chosen in an off-market process. She requested a full update on the JV before any further schemes were entered into with it. The Board agreed that a report would be submitted to its Property Sub-Group, who would need to be convinced that the arrangement represented best value. The report and the recommendations of the Sub-Group would then be submitted to the next Board Meeting.

Watergrid

05/47 The Board then considered a report and recommendation that the existing Watergrid Joint Venture be wound up and the company should become a wholly owned subsidiary of BW (Appendix II of BWB 3182).

The Chief Executive's analysis of why profitable contracts were unlikely to be forthcoming was accepted. Also that the Government's reluctance to introduce full scale common carriage had been the principal impediment for Watergrid. *[Text omitted as commercially confidential]*. The Executive confirmed that the valuable lessons learnt would be kept under review for the benefit of other JVs.

The Board agreed that its supplies of raw water remained a significant asset and the way forward was to seek co-operative supply relationships with individual water companies. Scotland was a separate issue not related to Watergrid.

The Board agreed that Watergrid should become a wholly owned subsidiary of BW and that costs of circa £650k be written off in the 2004/05 accounts. *[Text omitted as commercially confidential]*. A suitable date for the transfer to BW would be confirmed.

Willow Grange

05/48 The Chief Executive raised the Willow Grange office move as an additional item to his report. The Government had suggested this was covered by the Lyons Report. The Chairman had suggested there should be an internal audit report on the risks of a move on this basis and this was being undertaken.

HEALTH & SAFETY MANAGEMENT REPORT

05/49 The Technical Director introduced BWB 3178, the regular Board update on safety. This covered progress of the BW Safety Transformation Programme, Review of Accident Statistics and Review

of Visitor Risk Management.

Mr Sim updated the Board on the investigations he was undertaking, on behalf of the Legal Director, concerning the fatal diving accident at Upper Lode on the River Severn and the fatal tractor incident on the Kennet & Avon Canal.

At Upper Lode, the forensic investigation by the police and the HSE had been completed. Their joint file would be submitted to the Criminal Investigation Service in the next two months with a decision by the CPS expected towards the end of the year.

On the Kennet & Avon, the Police had released the tractor and had found no fault with it. The HSE had taken over the investigation from the Police.

Mr Sim highlighted the appendix to his report on Visitor Risk Management and particularly on getting meaningful data on visitor accidents and reporting this to the Board. Mr Bowker referred to the very high standards applied in the railway industry to clients and customers. He would give Mr Sim the names of some useful contacts.

3-YEAR CORPORATE PLAN

05/50 The Board considered the draft Corporate Plan for the three years beginning April 2005 [BWB 3180]. This incorporated Board Members' comments made both at the last meeting and subsequently and incorporated further input from the Executive.

Introducing the Plan, the Chief Executive advised that it had been shared with the Waterway Minister. The Finance Director highlighted the changes in the financial performance by business area since the last draft of the document.

Comment in discussion included:

- The need to include a succinct definition of EVC that would be generally understood and could be used in other documents as required;
- Obtaining grant funding for flood alleviation, which BW qualified for as confirmed by the Environment Minister, should be added as an objective;
- The section on Watergrid would be revised to reflect the update and Board decision in respect of the Chief Executive's report (BWB 3182);
- Top clients (2.6) and customers (4.1) to be more effectively linked.

Subject to these points, the Board approved the 3Year Plan and delegated to the Chairman, Chief Executive and Legal Director to review the contents of the plan with regard to commercially sensitive information if it was disclosed.

OUR PLAN FOR THE FUTURE 2005-2009

05/51 The Board considered BWB 3181, Our Plan for the Future 2005-2009, which was based on the structure, agreed at the previous Board

meeting. This included the text, milestones and dashboard from the 10-year discussion document and the 3-Year Plan.

Board Members commented on the document. Particular emphasis was made of the need to underscore BW's positive contribution to the environment and corporate social responsibility and to embrace the thinking on this by the Waterway's Minister at the supper meeting with the Board, including the importance of a social audit.

It was agreed that an HTML format should be used to publish the document on the BW website rather than PDF, which was less user friendly.

It was agreed that further comments should be given to the Director of Marketing & Customer Service. It was accepted that the range and number of these comments might require a telephone conference before sign-off which was delegated to the Chairman and Chief Executive.

BW ANNUAL REPORT & ACCOUNTS 2004/05

05/52 The Finance and Marketing & Customer Service Directors introduced BWB 3177.

They recalled that in January the BW Audit Committee had endorsed outline proposals to pre-adopt the format of an Operating and Financial Review (OFR) for the 2004/05 Annual Report and Accounts, prior to its mandatory implementation in 2005/06. This was to be prepared in accordance with new regulations set out by DTI and the Accounting Standard Board's Draft – Reporting Standard 1 OFR.

The Board considered the example OFR sections included in the memorandum on "Leisure" and "Our People" and agreed the approach was a good one. They would be asked to accept other sections of the OFR as they become available. The importance of ensuring that these used consistent language and plain English was emphasised. The Board noted the transparency of the section on "Our People" and the Executive confirmed it accepted the need for this and was facing up to the challenges presented.

The Board endorsed the next steps for comment on the OFR and other sections of the Annual Report with a view to final approval at the next Board meeting on 9 June 2005 and publication of the document on 30 June.

OPERATIONAL PROJECTS (BWB 3184)

05/53 The following projects were approved:

- **Manchester Bolton & Bury Canal Restoration of First Section at Middlewich, £4.14 million (£0 net), £251k Risk Allocation;**
- **Lancaster Canal Feasibility Study Phase 1 Restoration, £757k (£84k Net);**

[It was noted that in both projects, approval did not imply a commitment to undertake further stages].

The Board then considered a further project submitted for approval: -

- **Regents Canal Brent Reservoir, £2.021 million Arrears, £249k Risk Allocation.**

The Board noted with concern that the EA had so far refused to consider allocating grant for the project under its policy on funding third party flood defence assets. This despite the assertion of the Minister, Elliot Morley, that BW was eligible. The Chief Executive and Technical Director were meeting Mr Bird of DEFRA the following day to urge him to persuade the EA to re-consider its position.

The Board agreed the project with the assurance that it involved only those works required in the interests of safety compliance and that was a statutory requirement. In the longer term, the Executive would look at options for the reservoir's future, including development or disposal.

The Executive Summaries of the following projects , which had been agreed by the Directors, were noted: -

- **Albert & Salthouse Docks Liverpool Upgrading of Pontoons £320k;**
- **Grand Union Regents Canal Camden Community Safety Improvements, £247k (£140k net).**

Additionally, the Board received a presentation on the **Droitwich Canal** and progress of the project to restore the 12 Km link between the Worcester & Birmingham Canal and the River Severn.

Introducing this, the Chief Executive referred to the discussion at the last Board Meeting when the need to assess the implications of BW having to bear any unfunded elements of the Droitwich and Cotswolds restorations had been agreed. The presentation to follow from the Managing Director, Southern Waterways, on the Droitwich restoration was intended to initiate a debate to guide a formal proposal to the Board.

Mr Evans felt that restorations should be assessed against the strategic objectives of the vision for an expanded network, to delight customers and be largely self-sufficient. Previous restorations had not always met customer expectations and if the next restoration was to meet these standards, it would need to be fully resourced.

Mr Lancaster then covered the history of the project, its benefits, the funding committed and the shortfall (currently £1.5m for a £1.5m project).

Points in the discussion included: the need to evaluate the proposal in terms of the self-sufficiency objective – if it was a priority should something else be dropped? ; much of the benefit would go to others e.g. heritage, environment and access – how was this to be assessed and recovered? ; there were significant reputational/public realm issues to be considered if BW withdrew from the project.

Mr Lancaster confirmed that further work would be undertaken to improve the funding certainty. It was agreed that with building price inflation and the need for the HLF contract to be signed in the Autumn, a full project proposal would need to be submitted to the June Board

Meeting.

The Board welcomed the Executive approach particularly that all the issues were being addressed and the restoration was being considered in the wider business planning context.

Brief reference was made to the Cotswolds restoration but it was felt this was at an earlier less critical stage with more options available on proceeding.

COMMERCIAL UPDATE & COMMERCIAL PROJECTS (BWB 3175)

05/54 The Board noted progress on the 2004/05 investment and disposal strategy.

The following project was approved:

- **Woolsthorpe Wharf, Woolsthorpe by Belvoir, Holiday Cottages** – contribution of £243k commercial capital in a £663k project to convert BW's operational yard and buildings at Woolsthorpe Wharf into self-catering holiday cottages.

In approving the project, the Board noted that the cost of moving the operational staff was not included in the cost, but this was not significant and that there were no other uses with a comparable financial return. Its potential as a model for canalside rural regeneration would be borne in mind, although it was also noted that the current source of European Funding was unlikely to continue beyond 2007.

[Professor Fleming declared an interest in the following commercial projects through his consultancy work. It was agreed he should remain and participate in the discussion].

Two projects approved by the Board at a meeting the previous afternoon, were noted:

- **Middle Warehouse, Castle Quay, Manchester**
- **Giant's Basin, Potato Wharf, Castlefield, Manchester**

The Board asked that their appreciation be conveyed to Richard Curtis and Nigel Bell for their work the previous evening to advance a number of agreed proposals.

The Board then considered a further project for approval:

- *[Text omitted as commercially confidential].*

THE WATERWAYS TRUST

05/55 The Board noted BWB 3179.

The Board endorsed the Chief Executive's view that with the Trust now concentrating on the museums and project fund raising, there was not the same level of concern as to its performance under the BW contract. Future reports to the Board would be half-yearly rather than at each meeting.

AUDIT COMMITTEE

05/56 The Board noted the Minutes of the Audit Committee Meeting held on 19 January 2005.

TEMPORARY BORROWINGS (BWB 3176)

05/57 The Board considered BWB 3176 and gave authority for an application to be made to the Secretary of State for the Environment, Food & Rural Affairs for the maintenance of the existing limit of temporary borrowings of £3 million for the financial year commencing 1st April 2005 with the appropriate resolutions as attached to the Memorandum.

CHANGES TO BANK SIGNATORIES (BWB 3183)

05/58 The Board resolved to approve the following additions to the Royal Bank of Scotland (National Westminster Bank) Mandate.

- Delete Maureen Webber and add John Power as Accounting to Reporting Manager;
- Add Sally Roberts as Group Financial Controller.

The full list of authorised bank signatories was attached to the memorandum.

SEAL REGISTER

05/59 The Seal Register, showing that document numbers 17,803 to 17,914 had been sealed since the last meeting of the Board was received.

NOMINATIONS COMMITTEE

05/60 The Board noted the Minutes of the Nominations Committee held on 23 February 2005.

Dr Greener highlighted the excellent paper from the Personnel Director on succession planning and the discussion on this.

The Board agreed that the need for future appointments to the Board to reflect the key functional areas it identified (e.g. heritage, Wales and diversity) should be raised with the new Chairman as soon as an appointment was made.

DATE OF NEXT MEETING

9 June 2005